

Attracting International Investment and Enabling Low-Barrier Entrepreneurial Opportunities in Canada

Written Submission for the 2019 Federal Pre-Budget Consultation

Submitted by: The Direct Sellers Association of Canada

August 3, 2018

RECOMMENDATIONS:

1. The DSA recommends that the federal government maintain independent contractor status to ensure earning opportunities for Canadian direct selling companies and independent sales contractors can continue to thrive.
2. The DSA recommends that the federal government strive to preserve free trade and prioritize a resolution to the NAFTA re-negotiations to support industry growth and supply chain efficiency.
3. The DSA recommends that Canada continue to protect the current *de minimis* threshold in its ongoing trade negotiations with the United States.
4. The DSA recommends that Health Canada continues to ensure common sense regulation for health care products that does not unduly burden Canadian businesses while allowing loopholes that benefit un-regulated, international sellers.

Context

The House of Commons Standing Committee on Finance has asked Canadians to submit their recommendations on the topic of ensuring Canada's competitiveness. Growing the economy in the face of a changing economic landscape requires the embrace of new ways of doing business, novel approaches in established sectors, and a commitment to taking an honest look at the practices and policies that enable success or that inhibit progress.

The Direct Sellers Association of Canada (DSA) is the national voice of Canada's direct selling industry. Over 1.2 million Canadians earn income from direct selling, and over 83% of industry participants are women. The DSA represents over forty member companies that support low-barrier entrepreneurial opportunities for Canadians who seek to learn business skills, enhance their networks and generate income from flexible business opportunities.

Direct selling in Canada dates back over 100 years and our modern sector and companies have inherited a business environment that is the envy of the world in terms of its protection of consumers and industry participants. For many years, the model has paid dividends to Canadian businesses and the people who benefit from our sector, but recent developments across product categories in our industry are making it harder for businesses to come here and grow in our country. The DSA is proposing a range of initiatives that will help our economy grow, by incentivizing new businesses starting in Canada and foreign businesses expanding to Canada, and supporting low-barrier entrepreneurial opportunities for women.

Entrepreneurship & Flexible Earning Opportunities – Maintaining Contractor Status

Direct selling provides the opportunity for Canadians to earn income and learn business skills and creates an entrepreneurial opportunity for financial growth. Those who succeed in a direct selling business often cite the ability to work flexible hours and to build a work plan that suits their lifestyle. Unlike many traditional businesses, more than 90% of independent sales consultants (ISCs) choose to work part-time. Both direct selling companies and ISCs thrive because of this freedom.

To continue the growth of entrepreneurial opportunities in Canada and to provide a competitive environment for companies considering entering this market, ensuring the ability to hold independent contractor status is key. The DSA believes it is important to maintain independent contractor status, which does not create assumption of employment or impose administrative burdens for people and businesses that operate on in a direct selling model. The DSA urges the government to prevent the misclassification of employees, but not at the expense of legitimate independent entrepreneurs who are able to thrive through direct sales.

Canadian direct selling companies will be hurt by any move to change the ISC model and our businesses will be less competitive as a result. Further, the millions of Canadians who generate income through direct selling will face a direct financial hit.

Ensuring Free Trade

Free trade has benefitted the direct selling industry since the introduction of the North American Free Trade Agreement (NAFTA). Our industry is global in nature. It depends on well-integrated manufacturing processes and supply chains across borders, and shipping finished goods directly to ISCs and consumers.

Under NAFTA, direct selling companies have grown and more people have been able to make money by selling innovative and affordable products.

Canada's strong trade ties are fundamental to the competitiveness of our 40+ member businesses, who have chosen our country as a good place to do business. An increase in tariffs for businesses will damage the system of trade that the common market provides and that our sector has contributed to and become accustomed to. An introduction of new tariffs or introduction of new border taxes will hurt the entire direct selling industry.

We ask that a concerted effort continues to be made to resolve the current trade dispute with the US as urgently as possible and that the completion of an updated NAFTA agreement is prioritized. Furthermore, we ask that any funds collected as a result of countermeasure surtaxes be invested in programs to support businesses that will be directly impacted, such as many DSA member companies and direct selling ISCs.

Maintaining Canada's *de minimis* threshold

Canada's direct selling industry has taken a position against increasing our country's *de minimis* threshold. Two important distinctions set this measure apart from other fees levied at our borders, and they are profoundly important to Canadian businesses like ours.

First, it is important to recognize that not all markets are created equally. When comparing the Canadian *de minimis* threshold to that of our neighbours, it has to be underscored that the source of their online purchases is vastly different. In the U.S., online shoppers have made just 22% of their purchases from business outside of their own country, while 67% of Canadians have made a cross-border purchase online.

Second, goods sold to Canadians from foreign retailers, typically U.S.-based online marketers, do not generate any sales tax revenue for the federal government or the provinces. This revenue is crucial to supporting services and initiatives that are beneficial to Canadians, and that not only provide value to our citizens but give us an edge in attracting new businesses to our shores, like publicly funded healthcare. The U.S. does not have a federal sales tax and it does not collect state or local taxes for online sales coming from other countries. By allowing American goods to be shipped to Canadian consumers under an increased threshold, the government will be giving U.S.-based companies a tax advantage ranging from 5% to 15% across the provinces.

The government has set a goal of ensuring Canadian businesses continue to be competitive while creating opportunities for our citizens. Allowing an increase in the *de minimis* threshold would work against this aim and should not be on the table.

Ensuring Common-Sense Regulation of Healthcare Products

For many direct selling businesses operating in Canada or looking to enter the Canadian marketplace, natural health and nutritional products are a sector with high actual and potential growth. The direct selling industry has been particularly successful at developing effective health products and using the personnel selling model to ensure that consumers are informed when choosing the products that are right for them.

However, it is becoming increasingly difficult for products in these categories to be approved for sale by Health Canada and for health-focused companies to subsequently bring them to market in a cost-effective manner. Current initiatives under Health Canada's Self-Care Framework, including 'plain language labeling', are likely to continue to increase the cost of product development, packaging and marketing for healthcare companies by a significant amount, despite limited evidence of any health and safety benefit.

This situation favours products that are directly shipped from non-Canadian suppliers to consumers – products which may contain ingredients that are not approved by Canadian regulators and which can create a health risk for consumers. Closing this internet-sales loophole should be a safety priority for Health Canada, but the department is more focused on re-labelling many products that have already been ruled safe and effective in pre-market review.

The DSA supports the regulation of self-care products, as part of an overall strategy to make it easier for Canadians to access trusted products that aid in preserving health, because they are reviewed for safety and efficacy. We believe that it should be easy to find information about these products as well, but the current proposal could cost the natural health sector up to \$1 billion with no clear, direct benefit for consumers.

We ask that government recognizes that the potential increased costs created by Health Canada proposals, coupled with their uncertain benefit to Canadians, requires that current implementation timelines be set aside. This will allow for a re-examination of the entire approach to labeling self-care products and a review of all available options to promote informed use and a reduction of medication errors.